

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----- 042630

R 081232Z DEC 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8530

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 19781

EXDIS

E.O. 11652: XGDS-1

TAGS: ENRG UK

SUBJECT: NORTH SEA OIL: EXXON EDGES CLOSER TO MAJORITY
STATE PARTICIPATION

REF: LONDON 18671, LONDON 18486

1. REID OF ESSO EUROPE REPORTS SHELL/ESSO HAVE MOVED CLOSER TO AGREEMENT ON PARTICIPATION BUT THAT TWO CONTENTIOUS ISSUES REMAIN: TRANSFER OF LICENSE TITLE AND LEGAL PROBLEM OF POSSIBLE RESTRAINT OF TRADE CONSPIRACY. REID SAYS HARDLINE GOVERNMENT PRESSURE HAS EASED PERCEPTIBLY WITHIN PAST FEW WEEKS AND THAT HMG'S DESIRE TO REACH AN ARRANGEMENT TOGETHER WITH MOMENTUM NOW BEHIND NEGOTIATIONS, COULD RESULT IN AGREEMENT BY END OF DECEMBER.

2. ON PASSING OF TITLE TO LICENSE, REID SAYS HE IS HOPEFUL SINCE ALL US MAJORS ARE FACING SIMILAR DIFFICULTIES WITH HMG DEMAND THAT TITLE TO 51 PERCENT OF LICENSE BE TRANSFERRED TO BNOC. COMPANY ABILITY TO BORROW WOULD BE DIMINISHED OR RATE OF INTEREST PAID WOULD BE HIGHER; IN ANY EVENT PROJECT FINANCING WOULD BE MADE MORE DIFFICULT. REID ALSO STRESSED ADDED MEASURE OF SECURITY OF ACCESS TO CRUDE COMPANY HAS IF IT RETAINS TITLE AND BNOC HAS OPTION INSTEAD OF VICE VERSA. FURTHER, IF TITLE
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TRANSFERRED, COMPANY PAYS PETROLEUM REVENUE TAX

(PRT) ON BEHALF OF BNOC WHICH CREATES POTENTIAL PROBLEM UNDER US LAW SINCE PRT THEN WOULD BE PAID PURSUANT TO CONTRACT RATHER THAN UK LEGISLATION. REID ACKNOWLEDGED THERE ARE POLITICAL AND EMOTIONAL VALUES TO RETAINING TITLE AS WELL. CONVERSELY, HMG HAS PROBLEMS OF LESSER SECURITY OF SUPPLY AND A POLITICALLY LESS ATTRACTIVE PACKAGE SHOULD COMPANIES RETAIN TITLE. HE NOTED GOVERNMENT ALSO MIGHT WANT TITLE SO AS TO BE BETTER ABLE TO AVOID COMPLIANCE WITH ROME TREATY PROVISIONS.

3. ON POSSIBLE CONSPIRACY TO RESTRAIN TRADE, HMG STILL IS PRESSING FOR SUBSTANTIAL CONTROL OVER DISPOSITION OF NORTH SEA CRUDE. EXXON BELIEVES PROBLEM CAN BE HANDLED BUT SECSTATE FOR ENERGY BENN REPORTEDLY STILL INSISTS ON INSERTING "EXTREME" LANGUAGE. ROME TREATY OBLIGATIONS REMAIN SUBJECT OF DISDAIN FOR BENN AND D/ENERGY CIVIL SERVANTS BUT COMPANIES FEEL COMPELLED TO PROTECT THEMSELVES AS BEST THEY CAN IN THIS REGARD.

4. IN DISCUSSING CONSULTATIVE MECHANISM, REID SAYS HMG HAS DROPPED INSISTENCE ON "NATIONAL INTEREST" AND PENALTY PROVISIONS IN FAVOR OF COMPANY "BEST ENDEAVORS" CLAUSE TO OPTIMIZE USE OF UK REFINING CAPACITY TO MAXIMIZE BALANCE OF PAYMENTS BENEFITS TO UK THROUGH MAINTENANCE OF FAIR TRADING VALUE FOR CRUDE PRODUCED, ETC.

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 19781
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MOREOVER, HMG HAS BACKED OFF SOMEWHAT ON ITS DEMAND FOR GREATER BNOC INVOLVEMENT IN DOWNSTREAM OPERATIONS. SHELL/ESSO WILL CONSULT EXCLUSIVELY WITH HMG ALTHOUGH BNOC CAN BE USED AS ITS AGENT OR ADVISER FOR THESE PURPOSES, COMPANIES BEING CONCERNED ABOUT DUALITY OF BNOC ROLE FROM BOTH LEGAL AND COMMERCIAL STANDPOINTS. DESPITE THESE IMPROVEMENTS, SECSTATE FOR ENERGY WILL REMAIN ULTIMATE JUDGE OF WHETHER OR NOT CONSULTATIVE CONDITIONS ARE MET SATISFACTORILY SINCE HE RETAINS EXTENSIVE STATUTORY POWERS UNDER PETROLEUM AND SUBMARINE PIPELINE ACT AND OTHER LEGISLATION TO DIRECT ACTIONS OF BNOC AND PRIVATE COMPANIES.

5. REID CONCLUDED THAT COMPANIES MUST RELY HEAVILY ON SPIRIT OF TRUST IN HMG INTENTIONS. SHELL/ESSO NEVER WOULD ENTER INTO A STRAIGHT COMMERCIAL AGREEMENT SIMILAR TO ONE NOW ENVISAGED; IT IS TOO LOOSELY DRAWN, CONTAINS UNRESOLVED PROBLEMS UNDER ROME TREATY AND POSSIBILITY OF SUBSTANTIAL COMMERCIAL DISADVANTAGE. NONETHELESS, REID BELIEVED HMG HAD MADE CONCESSIONS, MIGHT MAKE A FEW MORE AND TIME WAS APPROACHING FOR BRINGING NEGOTIATIONS ON PARTICIPATION TO AN END.

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